

# Ofcom: Promoting competition and investment in fibre networks

**Jonathan Oxley**, Interim Chief Executive

**David Clarkson**, Interim Group Director, Competition

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## Summary

- ***Pro-investment, pro-competition strategy*** to support Ofcom and Government full-fibre ambitions
- Fibre ***build momentum maintained*** over past 18-months
- ***Significant departure*** in approach to support ***step-change in investment by all players*** and ***in all areas***
- ***Consistent approach*** from WLA 2018, PIMR 2019 and BCMR 2019 and build upon proposals laid out in July 2018 and March 2019
- Unrestricted access to Openreach ***ducts and poles***
- ***Variation of regulation by geography***
- Pricing proposals to promote ***investment across all of the UK*** backed up by public funding
- ***Full backing and support*** for retirement of legacy copper network
- ***Predictable long-term regulation***



## Proposals address regulatory enablers identified by Openreach

<b>Balanced approach to copper retirement</b>	<ul style="list-style-type: none"> <li>• Support Openreach in migrating customers to its new fibre network</li> <li>• Allow Openreach to charge a higher price for products on its fibre network</li> </ul>
<b>Fair treatment of legacy copper investments</b>	<ul style="list-style-type: none"> <li>• Index prices for existing copper products to inject more margin into network layer – allowing accelerated recovery of legacy copper investments</li> </ul>
<b>Clearer ‘fair bet’ terms</b>	<ul style="list-style-type: none"> <li>• Regulatory package reduces downside risk <ul style="list-style-type: none"> <li>• Copper retirement</li> <li>• Fibre ‘price premium’</li> </ul> </li> <li>• Departure from cost orientated charge control on 40/10 anchor</li> <li>• No price controls on higher speed services in potentially competitive areas – with uncapped returns in this period</li> <li>• If regulation necessary in the future, then consider upfront risk</li> <li>• Commitment to deregulate in areas where sufficient competition emerges</li> <li>• Regulatory asset base (RAB) model in areas where competition unlikely</li> </ul>

# Copper retirement

- **Balanced approach** recognises need to incentivise network build and protect customers
- Proposals **support** Openreach in migrating customers to new fibre network and subsequent retirement of copper network
- **Shift focus of regulation** from copper to fibre on an exchange-by-exchange basis as network builds
- Propose to apply a **two-year transition period** once an exchange hits 75% ultrafast coverage
- After which **remove copper charge controls** when coverage is complete and where fibre is available
- Allow Openreach to **charge a 'fibre premium'** for products on its new network to reflect additional value – proposed at £1.50-1.85/month/line
- Working with Openreach on **trials** across Salisbury and Mildenhall



## Supportive of new entrants business cases

- ***Duct and pole access*** lowers upfront cost and reduces build time – further enhanced by move to unrestricted access
- ***Greater margin for all network investors*** – index prices for existing copper products to inject more margin into network layer
- In Area 2 (potentially competitive), regulated prices only for entry-level superfast services – ***freedom to set prices for higher speed and higher-quality fibre-based services***
- Retail broadband providers have a stronger ***incentive to seek alternatives to Openreach***
- ***Monitoring of anti-competitive behaviour*** by Openreach
- Openreach restricted from geographic price variations and subject to ***non-discrimination rules***



## RAB model proposed for Area 3 (non-competitive)

- Despite DPA remedy, c.30% of the UK is unlikely to see competitive build → **regulation to incentivise Openreach to build**
- Proposed **Regulated Asset Base (RAB)** model:



- **Commitment to build** → include costs in prices upfront
- Work with Government on **public funding** to support build in most rural areas
- **Inflation adjusted** leased lines charge controls as in majority of Area 2
- Cost-based **dark fibre access** remedy proposed for **leased lines Area 3 only**



## Conclusion

- *Pro-investment, pro-competition strategy*
- *Significant departure* in approach
- Unrestricted access to Openreach *ducts and poles*
- *Variation of regulation by geography*
- Pricing proposals to promote *investment across all of the UK*
- *Full backing and support* for retirement of legacy copper network
- Proposals provide BT with a *sound basis* to move forward with its FTTP roll out
- *Predictable long-term regulation*